

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 PM-04 NSC-05 SP-02 SS-15 CIAE-00 INR-07

NSAE-00 EB-07 COME-00 TRSE-00 LAB-04 SIL-01 /056 W

----- 061757

R 222100Z APR 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC 9860

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EO 11652: NA

TAGS: EGEN, EALR, PE

SUBJ: GOP LIFTS 70,000 SOL LIMIT ON SALARIES IN PUBLIC
ENTERPRISES

REF: LIMA 524, LIMA 3472

1. BY DECREE LAW 21471 GOP CABINET ON APRIL 20 REMOVED
MAXIMUM SALARY LIMIT OF 70,000 SOLES (APPROXIMATELY \$1,550)
ESTABLISHED BY DECREE LAW 21394 IN JANUARY FOR PUBLIC SECTOR
AND PRIVATE ENTERPRISES WITH MAJORITY STATE PARTICIPATION
(LIMA 524). LATEST DECREE LAW DOES NOT REFER TO PRIVATE
ENTERPRISES WITHOUT STATE PARTICIPATION, WHICH HAVE BEEN ABLE
TO PAY HIGHER SALARIES, BUT, IN ACCORDANCE WITH DECREE LAW
21394, CANNOT TREAT AMOUNTS IN EXCESS OF 70,000 SOLES AS
TAX-DEDUCTIBLE BUSINESS COSTS.

2. DECREE LAW STIPULATES CONDITIONS UNDER WHICH HIGHER
SALARIES ARE PERMISSIBLE. THESE ARE:

A. PERSONNEL MUST BE HIGHLY SPECIALIZED, TAKING
INTO CONSIDERATION THE LEVEL OF EDUCATION AND EXPERIENCE
REQUIRED TO PERFORM DUTIES;

B. THERE MUST BE A SHORTAGE OF PERSONNEL WITH THE
SPECIFIC TRAINING IN QUESTION;

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C. THE EMPLOYMENT MARKET FOR THE SPECIFIC SKILL MUST

BE HIGHLY MOBILE;

D. THERE MUST BE AN ESSENTIAL NEED FOR THE PARTICULAR POSITION IN THE ACTIVITIES OF THE ENTERPRISE. ENTITIES WISHING TO PAY HIGHER SALARIES WILL HAVE TO OBTAIN LABOR MINISTRY CERTIFICATION THAT THE SKILL IN QUESTION MEETS CONDITIONS B AND C. IN THE CASE OF PRIVATE FIRMS WITH MAJORITY GOVERNMENT PARTICIPATION, PRIOR AUTHORIZATION FROM THE MINISTRY OF THE CONCERNED SECTOR WILL ALSO BE REQUIRED.

3. PUBLIC JUSTIFICATION FOR THE NEW DECREE LAW IS CONTAINED IN PREAMBULAR PARAGRAPHS WHICH STATE THAT IT IS NECESSARY TO INCREASE THE EFFECTIVENESS (RACIONALIZAR) OF THE GOP'S POLICY ON HIGH-LEVEL SALARIES IN THE PUBLIC AND NON-PUBLIC SECTORS, TO SAFEGUARD THE STATE'S INTERESTS, AND TO GUARANTEE THE DEVELOPMENT OF THE ENTERPRISES WHICH HAVE GOVERNMENT INVOLVEMENT.

4. COMMENT: (A) NEW DECREE LAW OR SIMILAR PROVISIONS WERE TO BE EXPECTED IN VIEW OF DIFFICULTIES MINISTRIES, GOVERNMENT ENTERPRISES, AND FIRMS WITH GOVERNMENT PARTICIPATION HAVE BEEN EXPERIENCING IN RETAINING QUALIFIED PEOPLE SINCE PROMULGATION OF 70,000 SOL LIMIT. WE HAD ALREADY HEARD STORIES OF EXODUS OF TECHNICIANS AND MANAGERIAL LEVEL PERSONNEL FROM GOVERNMENT SERVICE RESULTING FROM THE CEILING. ENTERPRISES SUCH AS CENTROMIN AND MINEROPERU WOULD HAVE BEEN PARTICULARLY HARD HIT BY LOSS OF SUCH PERSONNEL. WHILE THERE ARE NO FIGURES TO VERIFY REPORTED EXODUS, THE GOVERNMENT'S CONCERN WAS OBVIOUSLY SERIOUS ENOUGH TO RESULT IN THE LATEST DECREE LAW, WHICH WILL AMELIORATE THE EFFECT OF THE ORIGINAL RESTRICTION. DEGREE OF RELAXATION OF CEILING WILL DEPEND UPON RIGIDITY OF INTERPRETATION OF CONDITIONS MENTIONED PARA 2 ABOVE. THIS ELEMENT, OF COURSE, INCREASES OPPORTUNITY FOR BUREAUCRATIC MEDDLING IN APPLYING NEW DECREE.

(B) WHETHER A HOLE WILL BE PUNCTURED IN THE CEILING OVER SALARIES IN THE PURELY PRIVATE SECTOR REMAINS TO BE SEEN. THE PROBLEM THERE WAS NOT AS ACUTE, SINCE THE LIMITED OFFICIAL USE

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LIMIT WAS NOT MANDATORY. MOREOVER, BECAUSE OF THE HIGH DEMAND IN PERU FOR WELL-TRAINED AND/OR EXPERIENCED MANAGERIAL AND TECHNICAL LEVEL PERSONNEL, MANY OF THESE PEOPLE EITHER ALREADY WERE RECEIVING SALARIES FROM MORE THAN ONE FIRM OR COULD FIND EMPLOYMENT WITH ADDITIONAL COMPANIES TO BOLSTER THEIR INCOME. NEVERTHELESS, THE PRIVATE BUSINESS COMMUNITY HAD HOPED THAT THE TAX DEDUCTIBILITY FOR SALARIES ABOVE 70,000 SOLES WOULD BE

RESTORED. PRELIMINARY PRIVATE BUSINESS REACTION HAS REFLECTED DISAPPOINTMENT THAT THIS WAS NOT THE CASE. WE WILL BE DISCUSSING FURTHER THE PRACTICAL IMPLICATIONS OF THIS NEW DECREE WITH REPRESENTATIVES FROM THE GOVERNMENT AND THE PRIVATE SECTOR AND WILL REPORT ACCORDINGLY.

(C) WHILE REVISION OF THE SALARY CELING HAD BEEN CONSIDERED ONE OF SPECIFIC ACTIONS FOLLOWING PRESIDENT MORALES BERMUDEZ' MARCH 31 SPEECH WHICH WOULD BE SIGN OF MORE MODERATE REVOLUTIONARY COURSE (LIMA 3472), THIS INTERPRETATION OF DECREE LAW IS WEAKENED BY OMISSION OF PRIVATE SECTOR. IT WILL BE INTERESTING TO SEE IN COMING WEEKS WHETHER PRIVATE SECTOR'S CONCERNS WILL BE ADDRESSED THROUGH FURTHER MODIFICATION OF THE CEILING.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LAW, WAGE RATES, ECONOMIC PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: powellba
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LIMA03729
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760153-1055
From: LIMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760434/aaaabcug.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 LIMA 524, 76 LIMA 3472
Review Action: RELEASED, APPROVED
Review Authority: powellba
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by saccheem>; APPROVED <28 OCT 2004 by powellba>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOP LIFTS 70,000 SOL LIMIT ON SALARIES IN PUBLIC ENTERPRISES
TAGS: EGEN, EALR, PE
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006